

EBRI Databook on Employee Benefits

Chapter 2: Finances of the Employee Benefit System

UPDATED SEPTEMBER 2009

Employers and employees make payments to voluntary employee benefit programs that provide deferred compensation, health insurance coverage, and other benefits. In addition, employers and employees make payments to mandatory government social insurance programs, most notably Social Security and Medicare, which provide retirement income and health insurance coverage, respectively, for elderly and disabled workers and their dependents. Whether voluntary or mandatory, each of these programs is employment-based and financed primarily from employment-based contributions.

The government also administers public assistance programs, financed primarily from general revenues, for the benefit of financially needy Americans. These benefits are supplemental to the employee benefit system. Eligibility for these benefits is generally based on need and not tied to employment. Moreover, they are financed primarily from federal government general revenues and state and local government revenues rather than from funds earmarked as payments to the employee benefit system.

In 2008, individuals received \$3.3 trillion from major employee benefit and public assistance programs. Retirement benefit payments of \$1,395.3 billion accounted 42.3 percent of total benefit payments. Health benefit payments of \$1,110.3 billion, public assistance payments of \$610.6 billion, and other benefit payments of \$180.4 billion accounted for the remainder (table 2.1).

Employers spent \$1.5 trillion on major voluntary and mandatory employee benefit programs in 2008, including \$730.3 billion for retirement programs, \$637.9 billion for health benefit programs, and \$126.8 billion for other benefit programs (table 2.2). Individuals paid \$968.0 billion to the benefit system in 2008. Personal contributions to Social Security Old-Age, Survivor, and Disability Insurance and public employer retirement plans, totaled \$374.5 billion, contributions to health benefits totaled \$306.6 billion, and contributions to personal savings totaled \$286.4 billion (table 2.3).

Benefit Payments Received by Individuals

In the 1950s, retirement benefits increased significantly as a percentage of all benefit payments, rising from 21.2 percent in 1950 to 48.6 percent in 1960 (chart 2.1 and table 2.1). Correspondingly, other benefits declined significantly as a percentage of total benefit payments, declining from 50.8 percent in 1950 to 27.5

percent in 1960. Since 1960, retirement benefits, at around 50 percent of all benefit payments, have represented the largest component of benefit payments to individuals (chart 2.1). Health benefits have increased the most since 1960, while other benefits (i.e., group life insurance and workers compensation) continued to decline as a percentage of all benefit payments.

Nearly one-half (42.3 percent) of all payments to individuals in 2008, \$1,395.3 billion, were attributable to retirement income benefits (calculated from table 2.1). Of that amount, \$605.6 billion was paid by the Social Security OASDI program, \$461.5 billion was paid by private pension and profit sharing plans, and \$328.2 billion by public employer retirement plans, including those for the federal civilian, state and local government, railroad employees, and military personnel. An additional \$1,110.3 billion, or nearly 33.7 percent of total payments, was paid to or on behalf of individuals by health benefit programs. Of the total amount paid for health benefits, 57.9 percent, or \$642.9 billion was paid by private group health insurance, while \$464.7 billion was paid by Medicare. Payments from other voluntary and mandatory employee benefit programs, including unemployment insurance, workers' compensation, group life insurance, disability, and veterans' benefits, totaled \$180.4 billion or about 5.5 percent of total payments in 2008. Public assistance benefits, including benefits from such programs as Supplemental Security Income, Medicaid, and food stamps, totaled 610.6 billion in 2008 or 18.5 percent of all payments (calculated from table 2.1).

Employer Spending on Benefits

Since 1948, the amount employers spent on benefits has grown as a share of total compensation relative to wages and salaries. After increasing in the 1950s by 213 percent, in the 1960s by 178 percent, and in the 1970s by 318 percent, employer spending on benefits slowed in the 1980s, increasing by 113 percent. In the 1990s benefit spending slowed significantly to 63.0 percent (calculated from table 2.2). Employers spent \$1,494.9 billion, or 18.4 percent of total compensation, for employee benefits (not including paid leave) in 2008. This compares with \$273.7 billion, or 16.6 percent of total compensation in 1980, and \$23.6 billion or 8.0 percent of total compensation in 1960 (table 2.2).

Employer spending on wages and salaries increased in the 1950s at an average annual rate of 6.4 percent, in the 1960s by 8.1 percent, in the 1970s by 10.7 percent, in the 1980s at an average annual rate of 8.0 percent and in the 1990s at an average annual rate of 6.4 percent. Some analysts have stated that the slower growth of employer spending on wages and salaries was due in part to an increase in employer spending on health care benefits. Although spending on health care benefits increased at a faster rate in the 1950s, 1960s, and 1970s, 17.1 percent, 17.6 percent, and 19.6 percent respectively, health care benefit spending growth slowed in the 1980s to an average annual growth rate of 12.6 percent and an even slower rate of 7.3 percent in the 1990s.

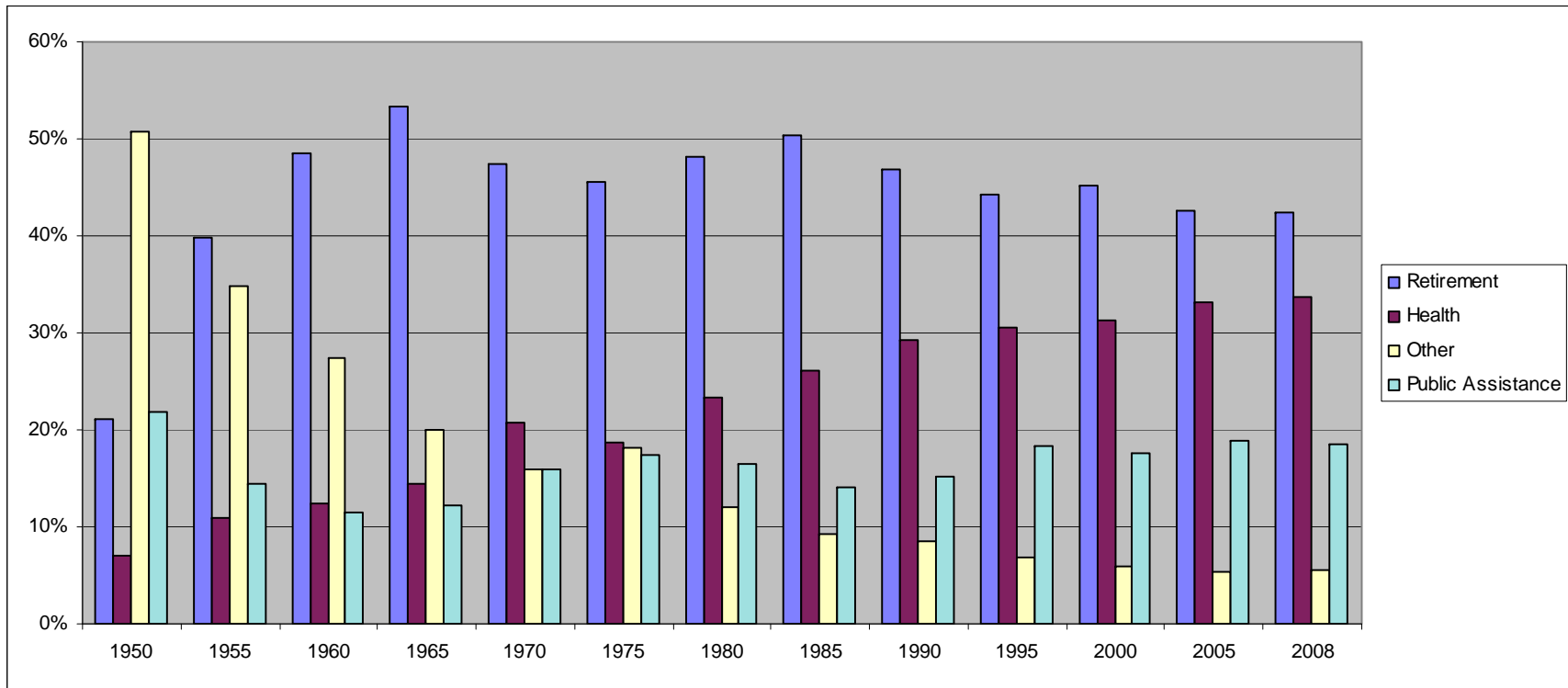
Of the three major employee benefit categories, health benefits increased the most as a percentage of benefit spending. In 1950, health benefits accounted for 8.8 percent of all benefit spending, retirement benefits 56.3 percent, and other benefits 33.8 percent. By 2008, health benefits accounted for 42.7 percent of all benefit spending, retirement benefits 48.8 percent and other benefits 8.5 percent (calculations based on data in tables 2.2 and chart 2.2).

Personal Spending on Benefits

Personal spending for employee benefits increased steadily from 1970 to 2008. In 2008, individuals spending on benefits amounted to \$968.0 billion. (table 2.3). Individual contributions to private sector retirement plans, such as 401(k) type plans are measured as part of personal savings. Over the years the amount individuals contributed to personal savings has fluctuated greatly. For example, in 1999, personal savings amounted to \$207.8 billion. In 2004 personal savings amounted to \$303.7 billion, yet in the following year (2005) it dropped significantly to \$127.7 billion. In 2008, personal savings amounted to \$286.4 billion (table 2.3).

CHART 2.1 -- UPDATED SEPTEMBER 2009
Selected Benefits and Public Assistance Received by Individuals

Selected Benefits and Public Assistance Received by Individuals as a Percentage of All Benefits Received, Selected Years 1950-2008



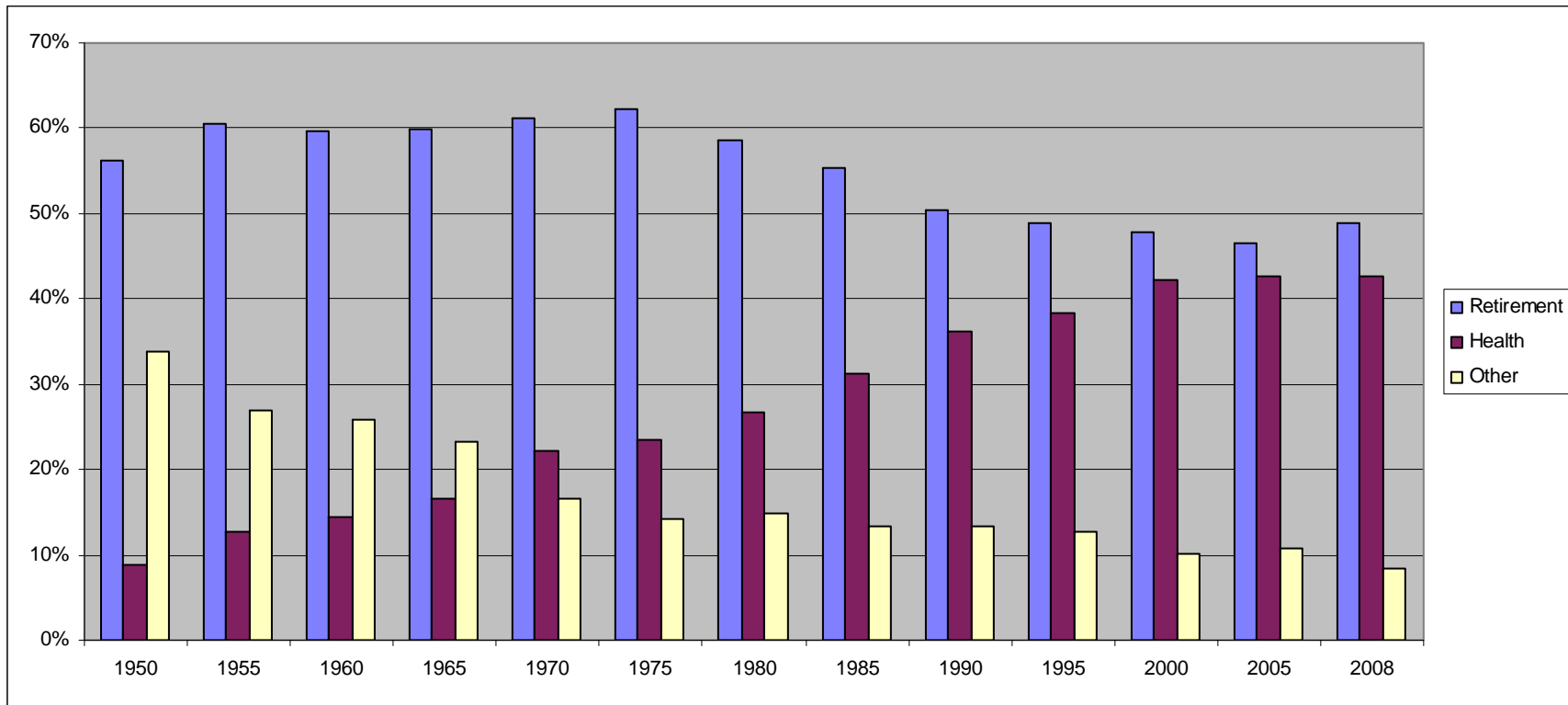
Source: Employee Benefit Research Institute tabulations based on U.S. Department of Commerce, Bureau of Economic Analysis, <http://www.bea.gov/national/nipaweb/Index.asp>

TABLE 2.1
Benefits Received by Individuals

Selected Payments to Individuals From the Employee Benefit System, by Function, 1948–2008

CHART 2.2 -- UPDATED SEPTEMBER 2009
Employer Spending on Benefits

Employer Spending on Retirement, Health, and Other Benefits as a Percentage of All Benefits, Selected Years 1950-2008



Source: Employee Benefit Research Institute tabulations based on U.S. Department of Commerce, Bureau of Economic Analysis, <http://www.bea.gov/national/nipaweb/Index.asp>

TABLE 2.2
Employer Spending For Benefits

Employer Outlays For Selected Employee Benefits by Function, 1948–2008

TABLE 2.3
Personal Spending For Benefits

Personal Spending For Selected Employee Benefits and Personal Saving, 1948–2008
